

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-10 ISO-00 FEA-01 AGR-05 CEA-01

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E.O. 11652: N/A

TAGS: ETRD JA

SUBJ: MITI'S PROPOSED PLANT EXPORT LOSS RESERVE SYSTEM

REF: TOKYO 9576

1. SINCE DISPATCH OF REFTEL EMBASSY HAS DISCUSSED PROPOSED PLANT EXPORT LOSS RESERVE SYSTEM ON TWO OCCASIONS WITH MITI OFFICIALS (TAKEDA OF ECONOMIC COOPERATION DIVISION, WHICH NOW IN CHARGE OF SCHEME, AND KINOSHITA OF AMERICAS-OCEANIA DIV.) IN ATTEMPT TO ELICIT FURTHER INFORMATION AND TO CONVEY USG CONCERN AT POSSIBLE INTRODUCTION OF GOVERNMENTAL MEASURES, I.E., FAVORABLE DOMESTIC TAX TREATMENT, WHICH COULD HAVE EFFECT OF (A) FAVORING EXPORTS OF LARGE SCALE PLANT AND EQUIPMENT OVER DOMESTIC SALES, AND (B) GIVING JAPANESE ENTERPRISES ADVANTAGES IN INTERNATIONAL BIDDING OVER

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COMPETITORS FROM OTHER COUNTRIES. TAKEDA INDICATED FINAL

DETAILS OF SCHEME NOT YET DECIDED BUT, EVEN SO, MITI NOW HOPES TO IMPLEMENT SCHEME BEGINNING JFY 1976 (APRIL 1, 1976) AND PLANS TO ENTER NEGOTIATIONS WITH FINANCE MINISTRY IN NEAR FUTURE TO OBTAIN REQUISITE APPROVAL FROM THAT MINISTRY. TAKEDA ALSO INDICATED TO EMBOFFS THAT SCHEME SHOULD BE REGARDED AS QTE ECONOMIC COOPERATION UNQTE RATHER THAN QTE TRADE PROMOTION UNQTE; THAT SCHEME INVOLVES ONLY TAX DEFERMENT AND NOT TAX EXEMPTION UNLESS EXPORT SCHEME RESULTS IN LOSS; AND THAT MITI IS FULLY AWARE OF GATT AND OECD TRADE PLEDGE RAMIFICATIONS AND USG CONCERN. FINALLY, TAKEDA SAID THAT EVEN AFTER DETAILS OF SCHEME DECIDED WITHIN MITI HE MAY NOT BE IN POSITION TO FULLY INFORM EMBOFFS RE DOMESTIC JAPANESE PROGRAM PRIOR TO ITS APPROVAL BY THE GOJ.

2. ON SEPTEMBER 8 EMBOFFS DISCUSSED PROPOSED SCHEME WITH FONOFF REPS FROM ECONOMIC COOPERATION BUREAU PLANNING DIVISION (NISHIMURA AND YAMUZAKI). THEY INDICATED FONOFF PREOCCUPIED WITH OWN BUDGET REQUEST PREPARATIONS AND THAT THEY FAMILIAR ONLY IN VAGUEST WAY WITH MITI SCHEME. DIFFERENTIATING BETWEEN OFFICIAL DEVELOPMENT ASSISTANCE, WHICH IS OF PRIMARY CONCERN TO THEM, AND QTE ECONOMIC COOPERATION UNQTE INVOLVING PRIVATE TRADE AND INVESTMENT AND PROVISION OF JAPANESE FUNDS AND SKILLS IN RETURN FOR RESOURCES, NISHIMURA OBSERVED THAT IT WOULD BE NATURAL FOR MITI TO PURSUE ECONOMIC COOPERATION MEASURES DESIGNED TO IMPROVE COMPETITIVENESS OF JAPANESE ENTERPRISES; HOWEVER, HE SAID FONOFF QTE NOT ESPECIALLY KEEN UNQTE ON MITI PROPOSAL. HE ALSO DOUBTED WHETHER FINANCE MINISTRY, IN LIGHT OF TIGHT BUDGETARY SITUATION, WOULD APPROVE ANY NEW SCHEME FOR NEXT FY WHICH WOULD REQUIRE GOJ FUNDS OR RESULT IN DECREASED GOJ TAX REVENUES.

3. EMBASSY COMMENT. PRESS REPORTS OF LOSS RESERVE SYSTEM HAVE PROBABLY BEEN INSPIRED BY LEAKS FROM MITI INTENDED TO TEST ACCEPTABILITY OF SUCH A SCHEME. IT IS BY NO MEANS CLEAR THAT GOJ-WIDE SUPPORT EXISTS OR CAN BE MUSTERED. EMBASSY WILL ENDEAVOR TO REMAIN INFORMED ABOUT MITI/MOF NEGOTIATIONS, PROSPECTS FOR LIMITED OFFICIAL USE

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IMPLEMENTATION OF SCHEME, AND ITS DETAILS. IN MEANTIME, IT MIGHT BE USEFUL FOR INFO ADDRESSEES TO INQUIRE OF THEIR JAPANESE COLLEAGUES AND TO REINFORCE TO THEM EARLIER USG EXPRESSIONS OF CONCERN.
HODGSON

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